



COMDTNOTE 4121

FEB 1 2002

COMMANDANT NOTICE 4121

CANCELLED: JAN 31 2003

**Subj: CH-4 TO THE COAST GUARD UNIFORM SUPPLY OPERATIONS MANUAL,
COMDTINST M4121.4**

1. **PURPOSE.** To provide changes to the Coast Guard Uniform Supply Operations (USO) Manual, COMDTINST M4121.4.
2. **ACTION.** Area and district commanders, commanders of maintenance and logistics commands, commanding officers of headquarters units, assistant commandants for directorates, Chief Counsel, and special staff offices at headquarters shall ensure compliance with the provisions of this Notice. Internet Release Authorized.
3. **DIRECTIVES AFFECTED.** None.
4. **SUMMARY OF CHANGES.** This Notice reflects changes to the USO manual. Added to Chapter 10 is the cost to hold valuation process used in determining the cost for holding stock in anticipation of future use. Added to Enclosure (2) is a \$5,000 threshold for reporting Operating Material & Supplies on a formal Board of Survey and approval authority for dollar value adjustments \leq \$499.99.

5. **PROCEDURES.** Remove and insert the following pages:

REMOVE

Pages 10-3 thru 10-4
Encl (2) Pages 11 thru 14

INSERT

Pages 10-3 thru 10-6
Encl (2) Pages 11 thru 14

6. **FORMS/REPORTS.** None.

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Assistant Commandant for Systems

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	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u	v	w	x	y	z
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Encl: (1) CH-4 to Uniform Supply Operations Manual, COMDTINST M4121.4

- a. Consumable APA managed items experiencing four (4) or more demands within one (1) year shall become a candidate for transfer to SF management.
 - b. Consumable APA managed items experiencing eight (8) demands within a two (2) year period shall be transferred to SF management.
 - c. Reparable APA managed items may be free issue or pay as you go. This shall be determined by the cognizance ICP.
3. CG insurance items under the cognizance of the ELC shall be APA managed items, free issue.
4. Demand item inventory levels shall be based on Economical Order Quantity/Economic Repair Quantity (EOQ/ERQ) principles best suited to the commodity of supply managed. The EOQ/ERQ model used must be fully documented. Departure from EOQ/ERQ models must be approved and documented for future reference. Cost to hold values are very important variables in the Economic Order Quantity (EOQ) calculation. This cost reflects the monetary penalty to hold inventory in anticipation of its future use. Cost to hold valuation process and summary is explained under FIGURE 2.
5. Insurance item stocking levels shall be determined by the method addressed in FIGURE 1.
6. Long supply and insurance item inventories shall be stratified and documented at least quarterly.
7. Reparable programs shall be developed and maintained (see Chapter 11, Repair Programs, of this manual).
8. Inter-service agreements shall be entered into as necessary to foster supply support.
9. PICA/SICA and/or dual management supply support arrangements with OGAs shall be entered into as necessary to meet customer requirements.
10. Position inventory as necessary to enhance supply support.
11. Dispose of excess material through the Defense Reutilization and Marketing Office (DRMO).

COMPUTING NUMERIC STOCKAGE LEVEL FOR INSURANCE ITEMS

- A. Basic Level. Quantities extracted from the following matrices are the basic inventory quantities, based on the installed population and procurement/repair lead-time.

	<u>25 or less platforms</u>				
	procurement/repair lead time in months				
Installed population per platform	0-6	7-12	13-18	19-24	25+
X					
Applicable value under procurement lead time	1	1	1	2	2

	<u>More than 25 platforms</u>				
	procurement/repair lead time in months				
Installed population per platform	0-6	7-12	13-18	19-24	25+
X					
Applicable value under procurement lead time	1	2	2	2	2

Should an insurance item cross platforms and the installed quantity vary, the minimum inventory level shall be based on the platform with the largest number of installed items.

- B. Exceeding the above levels. The quantities indicated in the above matrices normally provide an adequate numeric stocking level for insurance items. However, the quantities may be exceeded based on the Supply Manager's (as defined in the ECONOP) documented need or forecast, the supply status of the item, investment costs and the expected cost of non-availability. The Supply Manager shall document the circumstances and retain for future reference.

FIGURE 1

COST TO HOLD VALUATION

1. Determine the boundaries for the Cost to Hold Process.
2. Determine the Investment Cost, which is the current interest paid on 10 Year Treasury notes.
3. Obtain the value of wholesale and retail inventory via ALMIS or FLS queries.
4. Obtain the value of inventory transferred to DRMO via ALMIS or FLS queries.
5. Determine the Obsolescence Rate by dividing the DRMO transfers by the inventory value.
6. Obtain the warehouse rental costs (apply to ELC only).
7. Determine warehouse personnel costs by identifying personnel involved in the process.
8. Obtain the operating costs of the warehouse.
9. Obtain the applicable costs related to maintaining the remote warehouses.
10. Total the costs obtained in steps six (6) to nine (9).
11. Obtain the Storage Cost Percentage by dividing the step ten (10) total by the inventory value.
12. Obtain the inventory gains and losses via ALMIS or FLS queries.
13. Obtain the Other Losses Percentage by dividing the net gains/losses by the inventory value.
14. Add the Investment Cost, the Obsolescence Rate, the Storage Cost Percentage and the Other Losses Percentage to obtain the Total Cost to Hold Percentage.

COST TO HOLD SUMMARY

1. INVESTMENT COST:

10 Year Treasury Note Rate (Month/Year)	0.00%
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2. OBSOLESCENCE RATE:

a. Transfers to DRMO for FY 'XX (AMMIS or SCCR Query and MSAS Reports)	\$0.00
b. Inventory Value (ARSC or ELC and Yard General Ledgers)	\$0.00
c. Obsolescence Percentage (Transfers to DRMO divided by Inventory Value)	0.00%

3.	<u>STORAGE COSTS:</u>		
a.	Columbia Warehouse Rental Costs (MIPR with GSA)	\$0.00	
b.	Personnel Costs Curtis Bay/Columbia (Warehouse Personnel not included in CTO portion - excluding Overhead)	\$0.00	
c.	Operating Costs Curtis Bay/Columbia (3000DH & 3000DI accounts from FYXX Target Rept)	\$0.00	
d.	Remote Warehouses (Puget Sound & Barstow) (MIPR with GSA)	\$0.00	
e.	Grand Total Storage Costs (Sum 3a-3d)	\$0.00	
f.	Inventory Value (ELC and Yard General Ledgers)	\$0.00	
g.	Storage Cost Percentage (Grand Total Storage Costs divided by Inventory Value)		0.00%
4.	<u>OTHER GAINS/LOSSES:</u>		
a.	Inventory Gains (ALMIS or FLS Queries and MSAS Reports)	\$0.00	
b.	Inventory Losses (ALMIS or FLS Queries and MSAS Reports)	\$0.00	
c.	Net Gain (Gains minus losses)	\$0.00	
d.	Inventory Value (ARSC or ELC and Yard General Ledgers)	\$0.00	
e.	Other Gains/Losses Percentage (.02)% (Net Gain divided by Inventory Value)		0.00%
5.	<u>GRAND TOTAL COST TO HOLD PERCENTAGE:</u> (Item 1 + 2c + 3g + 4e = 5)		0.00%

FIGURE 2

based upon the limits of resources available and upon specific asset control problems. However, in no case will adjustments be processed against items without required pre-adjustment research having been performed (see Figure 2).

- c. **Timeliness of Research.** Timely completion of the research or potential adjustments is essential. Delay only increases the complexities of adequate research and reduces the probability of conclusive findings.
- (1) Pre-adjustment research must be completed and the physical inventory adjustments posted to the ICP record within 30 calendar days from the PICD for scheduled inventories and 15 calendar days from the PICD for unscheduled inventories.
 - (2) ARSC must complete mandatory causative research within 45 calendar days from the date the adjustment transaction was posted. The ELC must complete mandatory causative research and if necessary, post an adjustment transaction within 45 calendar days from the date of the count. If the ELC conducts a wall-to-wall inventory, the causative research will be done on discrepancies within 45 days from date the adjustment transaction was posted.
- d. **Adjustment Approval Authority.** All inventory adjustments are the responsibility of the ELC and ARSC Commanding Officer. The dollar threshold for reporting OM&S losses on a formal Board of Survey is ≥\$5,000. The following approval authority is as follows.

Dollar Value Adjustments per line item of APA materiel		Approval Authority
From \$0	To \$499.99	Gains/Losses Comptroller or Designated Authority
\$500	\$99,999	Comptroller
\$100,000	\$499,999	Commanding Officer
\$500,000	\$999,999	COMMANDANT (G-SEN), COMMANDANT (G-SEA)
\$1,000,000	OVER	COMMANDANT (G-CFP)

Figure 1

Note: All losses of controlled inventory items must be reviewed by the commanding officer or a designated representative to determine if a formal Board of Survey is appropriate, even though the dollar threshold criteria is not met. Supply fund is not included in figure 1. All supply fund losses exceeding \$5,000 or more are to be reported on a Board of Survey to Commandant (G-CFM-3) for approval. All YF losses exceeding \$500.00 are to be reported on a Board of Survey to the Yard's Financial Manager for approval.

- e. Reversal of Inventory Adjustments. Reversal of DI Code D8A/D9A Inventory Adjustments is a required capability which must be implemented with proper controls and supported by proper documentation. Procedures for reversing adjustments will contain, as a minimum, the following control features:

- (1) Posted/Unposted Source Documents. Reversals required to correct inventory records when posting previously unposted or incorrectly posted supply transactions (e.g., receipts, issues (issues are not applicable to ARSC) etc.). Regardless of age the service documents must be transactions properly referencing the specific transaction document number(s) that will be processed to offset the reversal.
- (2) Inventory Adjustment Corrections. The cutoff for reversals to correct physical inventory adjustments based on incorrect/incomplete information is three years from the date of the original adjustment. All reversals must be properly documented.

- 17. **Location Survey**. A location survey requires a physical verification, other than actual count, between physical assets and recorded location data to ensure that all assets are properly recorded. The CG acceptable performance goals for location survey are provided in Chapter 16, para.C, though more stringent standards may be imposed internally. Errors will be subject to validation and research before they are counted as an error. Only one error per surveyed location is to be reported; however, the ICPs will collect and analyze all type errors.

- a. A random statistical sampling location survey will be accomplished at the ICPs not less than once each fiscal year.

- b. Location survey will be conducted in both the gaining and losing storage areas following the accomplishment of re-warehousing projects. Re-warehousing is the physical movement of material from one location to another.
- c. To measure the accuracy of the results of the location survey, discrepancies will be classified in one of the three categories listed below. Only one error per stock number per location is charged when locator delete, or locator establish, or locator record correction (i.e., incorrect location) is required for the same location.

Note: Mismatches will be researched and special inventories conducted when required to effect corrective action.

18. **Retention of Accountable Documentation.** Audit capability is required for a period of time following the processing of documents, data and completion of the research effort. The following retention criteria will apply:

- a. Source Documents. Retain original source documents or facsimiles, i.e., microfilm/fiche, Compact Disc-Read Only Memory (CD-ROM), etc., for at least three years. When source documents are produced, these include only accountability change documents such as receipts, issues, shipments, transfers, supply condition code changes, and inventory and financial adjustments. Retain source documents providing evidence of issue to Foreign Military Sales recipients for three years from date of materiel issue.
- b. Transaction Histories. Retain registers, records, files, tapes, and data for at least three years in a format useful for audit trail.
- c. Adjustment Research. Retain backup documentation that directly pertains to individual cases of physical inventory adjustment research efforts for at least three years.
- d. Annual Statistical Sample. Retain the annual statistical sample inventory line item detail data for at least three years.

**MINIMUM RESEARCH REQUIREMENTS
FOR POTENTIAL OR ACTUAL PHYSICAL INVENTORY ADJUSTMENTS**

Condition of Discrepancy	Required Research		
	Post Count Validation	Pre-adjustment Research	Causative Research
<\$500 (YF) but <\$1000 (W)	NO	NO	NO
>\$1000 but <\$5000 (W) >\$500 but <\$3000 (YF) <10% unit variance	YES	YES	NO
>\$5000 (W) >\$3000 (YF) <25% unit variance	YES	YES	YES
*Controlled Inventory Item	YES	YES	YES
Suspected Fraud, Waste or Abuse	YES	YES	YES

Figure 2

(W)= WHOLESALE INVENTORY

(YF) = YARD FUND RETAIL INVENTORY

Note: Sample Causative research in lieu of complete causative research for pilferable item discrepancies with a value of \$.01 to \$500 may be accomplished to serve as a deterrent to fraud, waste, or abuse and to identify systemic inventory and security problems. Causative research will be conducted on all adjustments (gains and losses) of classified and sensitive items regardless of dollar value of item or extended dollar value of adjustment. Causative research will be conducted on all adjustments (gains and losses) of pilferable items with an extended value > \$100.